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Mary L. Cottrell, Secretary
Department of Telecommunications and Energy
One South Station, 2nd Floor
Boston, Massachusetts 02110

Re: Notice of Inquiry, Cost of Gas Adjustment Clause; D.T.E. 01-49

Dear Secretary Cottrell:

NSTAR Gas Company ("NSTAR Gas") hereby submits its comments in response to the Notice of Inquiry ("NOI") issued by the Department of Telecommunications and Energy (the "Department") soliciting comments regarding the promulgation of rules or the amendment of the Department's existing regulations concerning the Cost of Gas Adjustment Clause, 220 C.M.R. §§ 6.00 *et seq*. In its NOI, the Department requests comments on the following issues:

> Whether the Department should promulgate rules that require LDCs to submit CGAC filings more frequently than semi-annually. If yes, how often should LDCs be required to submit requests for the recovery of gas supply costs;
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> Whether, under the current regulations, LDCs can petition the Department to allow for an adjustment to the GAF more frequently than on a semi-annual basis; and
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> Whether, under the current regulations, the Department, on its own motion, may require LDCs to file for recovery of gas costs more frequently than on a semi-annual basis.

Background

NSTAR Gas recovers its gas supply costs from firm sales customers through its Seasonal Cost of Gas Adjustment Factor Clause ("CGAC"). NSTAR's Gas's CGAC was established pursuant to the Department's regulations at 220 C.M.R. §§6.00 *et seq.*, which govern the procedures for local gas distribution companies ("LDCs") to adjust their rates, on a semi-annual basis, for the recovery of the costs of purchasing and transporting natural gas to their respective city gates.

Under its CGAC tariff and in accordance with the Department's regulations, NSTAR Gas files with the Department, twice a year, a calculation of the Gas Adjustment Factor ("GAF") designed to adjust its CGAC to reflect the seasonal variation in the cost of gas, and to provide for such credits as supplier refunds, margins associated with capacity release, margins from off-system sales, and margins from non-core gas sales. These semi-annual filings are made 45 days prior to the beginning of the peak season (November 1) and the off-peak season (May 1). Under its CGAC, NSTAR Gas calculates (i) a Base GAF, which is designed to recover gas supply costs to serve year-round core load levels; and (ii) for the peak season, a Supplemental GAF, which is designed to recover gas supply costs necessary to augment the Base GAF in meeting core load requirements. At the end of each season, NSTAR Gas reconciles the recoveries from customers billed through the GAF to the actual costs incurred to meet the requirements of customers in that season. Any under- or over-collection in the Base GAF is recovered from (or refunded to) firm sales customers in the next season. Any under- or over-collection in the Supplemental GAF is recovered from (or refunded to) firm sales customers in the next peak season. The Department's regulations allow an LDC to file an amended GAF at any time, provided that the filing is at least ten (10 days before the first billing cycle of the month in which it is proposed to take effect (220 C.M.R. § 6.12(2))). Also, the Department may at any time require an LDC to file an amended GAF (220 C.M.R. 6.12(3)).

As stated in its NOI, the Department initiated this proceeding because of the actions taken by the Department in the 2000/2001 peak season to allow LDCs an increase in their peak season GAFs to recover their gas supply costs as a result of the dramatic and sudden increase in gas commodity costs. D.T.E. 01-49, at 2-3. As a result of the unpredicted and substantial increase in gas commodity prices during the winter of 2000/2001, all of the Massachusetts LDCs filed with the Department in December 2000 and January 2001 for an increase in their respective peak season GAFs. D.T.E. 01-09, *et al* (2001). After an investigation into the

LDCs' filings, the Department allowed the LDCs to adjust their GAFs to collect a portion of the projected under-recoveries of gas supply costs, stating that these adjustments would reduce the level of costs that would need to be deferred for recovery in the next peak season. Id. In recognition of the dramatic and unprecedented increases in gas costs seen by customers during the 2000/2001 winter season, the Department now is evaluating whether a gas cost adjustment mechanism with a more frequent rate calculation is appropriate. Id. at 11; D.T.E. 01-49, at 2.

II. Response to the Department's Questions

(1) NSTAR Gas does not believe that the Department should issue regulations or amend its existing regulations to require LDCs to submit CGAC filing more frequently than semi-annually.[1] NSTAR does recommend that the Department establish guidelines for interim filings to amend the peak season GAF. In the following section, NSTAR Gas outlines a proposal for such guidelines that maintain the current regulations and provide for LDCs to make interim filings triggered by a threshold pertaining to the projected balance of deferred gas costs.

(2) As noted above, the Department's regulations at 220 C.M.R. § 6.12(2) provide LDCs with the opportunity to file with the Department a proposed amended GAF, provided that such filing is made at least ten days before the first billing cycle of the month in which the amended GAF is to take effect.

(3) Also as noted above, the Department's regulations at 220 C.M.R. § 6.12(3) provide the Department with the right to require an LDC to file an amended GAF at any time.

III. NSTAR Gas Proposal

NSTAR Gas proposes that the Department maintain its current regulations governing LDCs' recovery of gas supply costs through seasonal CGAC filings and establish guidelines for LDCs to make amended GAF filings during the peak season. NSTAR Gas's proposal is designed to minimize the potential for excessive under- or over-recoveries of gas costs by LDCs while allowing for a measure of rate continuity to avoid unnecessary customer confusion and to ease

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[1] The implementation of a monthly GAF for all gas companies in the state would represent a fundamental shift in the generally applicable requirements established in the existing CGAC regulations. Accordingly, NSTAR Gas believes that if the Department wished to implement that change, it would need to promulgate new regulations pursuant to the requirements of G.L. c. 30, §§ 2 et seq.

billing administration. Because changes in an LDC's GAF require proration of charges on a customer's bill, a customer's bill will not reflect the actual GAF for the first month that it takes effect. Because of this result, proration of bills often raises questions and complaints from customers as to the actual rate in effect. Thus, NSTAR Gas does not recommend automatic monthly changes in the GAF because of concerns for unnecessary customer confusion.

Specifically, NSTAR Gas proposes that the Department require LDCs to make an amended GAF filing whenever the LDC determines that the level of its projected over- or under-recovery of gas costs at the end of the peak period will be greater than 5 percent. If the projected over-or under-recovery were 5 percent of less, the LDC would have the discretion to make an amended GAF filing. Such a filing would be made no later than five days prior to the first billing cycle of the following month, and would include an update of actual costs, an updated forecast of gas prices based on the posting on the New York Mercantile Exchange ("NYMEX"), and a revised GAF calculation designed to produce a zero balance for deferred gas costs for the respective base and supplemental components of the GAF. The amended GAF would take effect on the first day of the month for which it is proposed, unless otherwise ordered by the Department.

NSTAR Gas's proposal would require the Department to grant a limited exception to its regulations to allow for the amended filing five days, rather than the currently required ten days, prior to the first billing cycle of the following month. The Department's regulations at 220 C.M.R. § 6.12(1) provide the Department with the authority to grant exceptions to its CGAC regulations. NSTAR Gas believes that the move to five days will produce a more accurate reflection of anticipated prices, because that timing will allow an LDC to use NYMEX postings closer to the NYMEX closing price, which occurs three business days prior to the end of the month. This timing also will allow sufficient time to administer the rate change before it becomes effective.

IV. Conclusion

NSTAR Gas's proposal for amended GAF filings with a 5 percent trigger attempts to balance the need for a measure of rate continuity for customers with the need to minimize the potential for substantial over- or under-recoveries of gas supply costs by LDCs during the peak season. This proposal also allows the Department to institute guidelines for amended filings without the need to change its regulations. NSTAR Gas recommends that the Department put in place such guidelines for the 2001-2001 winter season.[2]

In the future, the Department could consider a similar process for the off-peak season if price volatility during the summer months warranted more frequent filings.

NSTAR Gas appreciates the opportunity to comment on the issues raised by the Department in this proceeding. Please contact me with any questions or comments.

Sincerely,

John Cope-Flanagan

John Cope-Flanagan

cc: George Yiankos, Director, Gas Division (10)
George Dean, Assistant Attorney General
Robert Sydney, General Counsel, Division of Energy Resources
Massachusetts Gas Collaborative (via e-mail)